

Top Myths about 529 College Savings Plans



I can only use 529 plan assets for a school in the state that sponsors my plan

You can use your 529 plan assets at any eligible educational institution that meets specific federal accreditation standards. These institutions include most four-year colleges and universities, many two-year institutions and vocational schools, and some schools abroad. In addition, participants can use 529 plan assets for associate's, bachelor's, and advanced degrees.

I can only use assets in my 529 plan account for tuition

529 plan assets can be used for many higher education expenses, including tuition, room and board, books, mandatory fees, and even computers.

If my child decides not to go to school, I lose the assets in my account

You can transfer the 529 plan account you set up for your child to another family member with no tax penalty. This includes siblings, children, nieces and nephews, etc. If you choose to withdraw the assets as a non-qualified withdrawal, earnings are taxed at the taxpayer's ordinary income tax rate and there is a 10% tax penalty on earnings.

I can only use 529 plan assets for undergraduate schools

529 plan assets can be used at graduate institutions as well.

I make too much/too little money to qualify for a 529 plan

There are no income restrictions or limits to be eligible to participate in 529 plans.

Investing in a 529 plan lowers the chance of qualifying for financial aid

529 plan assets have a relatively small effect on federal financial aid eligibility because they are considered assets of the family on the Free Application for Federal Student Aid (FAFSA). 529 plan accounts are counted on the FAFSA at approximately 6%, like any other family savings. Accounts considered assets of the student have a greater FAFSA impact (20%). Accounts set up by grandparents for their grandchildren have no effect on financial aid eligibility. State financial aid eligibility differs, so check your home state for more information.

Only financial advisors sell 529 plans

If you already work with a financial advisor, they can help you choose a 529 plan. If you'd like to invest on your own, however, most states offer plans designed specifically for you.

I am stuck with the portfolio I chose when I opened my 529 plan account

Currently, you are allowed to make two investment changes a year without penalty. You can change future allocations at any time.

It costs a lot of money to open and maintain an account

Most plans require very little money to open an account and have very low minimums for contributions (often \$15). In addition, most 529 plans have a high maximum limit.

I can only invest in risky, aggressive stock portfolios

529 plans offer a large range of portfolios to invest in, including bond funds, money market funds, stock portfolios, and even some CD options. Some states also have a prepaid plan, which lets you pre-pay for portions of a college education.

It's too late to start saving in a 529 plan

It is never too late to start saving. Not only do 529 plans offer tax deductions in many states, but there are also other benefits to saving in a 529 plan. In addition, there are no age restrictions for beneficiaries, so the assets can be used if a person decides to go back to school later in life.

Only a parent can be an account owner

Parents, grandparents, aunts, uncles, great-grandparents, friends...anyone can be an account owner.

I'm the only one who can contribute to my 529 plan

For most 529 plans, anyone can contribute to an account that has been set up. Only one account owner can be set up per account, but other family members and friends can contribute.

Only my child can be a beneficiary

Generally, anyone can be named a beneficiary of a 529 plan account. The only requirements are that the beneficiary must be a U.S. citizen and have a Social Security number. You can even open an account for yourself!